

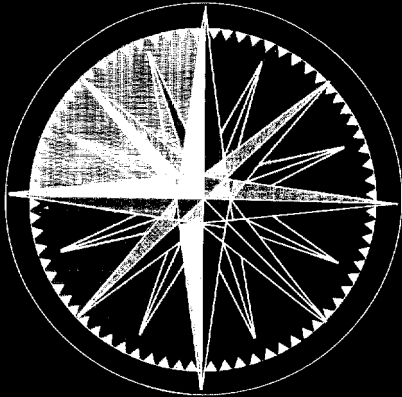
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# SPECIAL REPORT

COMMUNIST CHINA'S FOREIGN TRADE

CENTRAL INTELLIGENCE AGENCY  
OFFICE OF RESEARCH AND REPORTS

MORI/CDF Pages 1-8

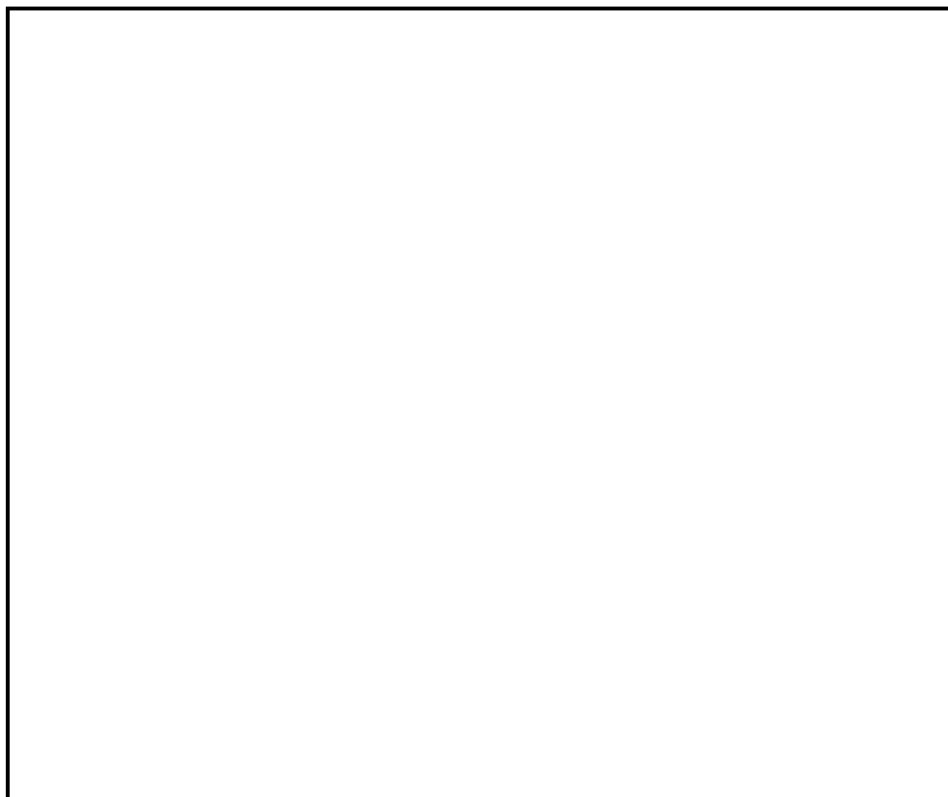
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**COMMUNIST CHINA'S FOREIGN TRADE**

The economic slowdown in Communist China since the failure of the leap forward caused its foreign trade to decline sharply between 1959 and 1962. Concurrently the dispute with the USSR has dictated a major change in its trading pattern. The 1962 total was 40 percent below 1959's \$4.2 billion, a decline in trade with the USSR and the European satellites accounting for most of the decrease. No improvement has been noted this year, but activity associated with foreign trade suggests that major decisions for the future are at least under consideration. Peiping appears to be making a positive effort to pay off its obligations to the USSR and to minimize future purchases there. On the other hand, it has been investigating the availability of industrial goods and markets in the free world.

Trade With the USSR

The basic nature of the political dispute between Moscow and Peiping would seem to preclude any predilection on the part of either to seek an early revival of trade relations. The results of Sino-Soviet trade in 1962 clearly indicate that Peiping's dependence on the USSR has greatly diminished. While the USSR remains nearly the sole source of China's oil imports, Peiping has been investigating alternate sources and expanding domestic facilities.

In 1962 Sino-Soviet trade totaled \$750 million, but imports of Soviet goods reached only \$235 million. China's export balance was \$280 million,

adequate not only to meet its scheduled debt repayment but to prepay \$100 million due in 1964-65. The planned nature of intrabloc trade strongly suggests that China chose to maintain this export balance rather than to seek a nonbloc outlet for some of its exports. A similar pattern is likely this year, since China still owes the USSR about \$450 million. Almost 60 percent of Chinese sales to the USSR last year were textiles and textile products, which are difficult to dispose of in the highly competitive free world markets.

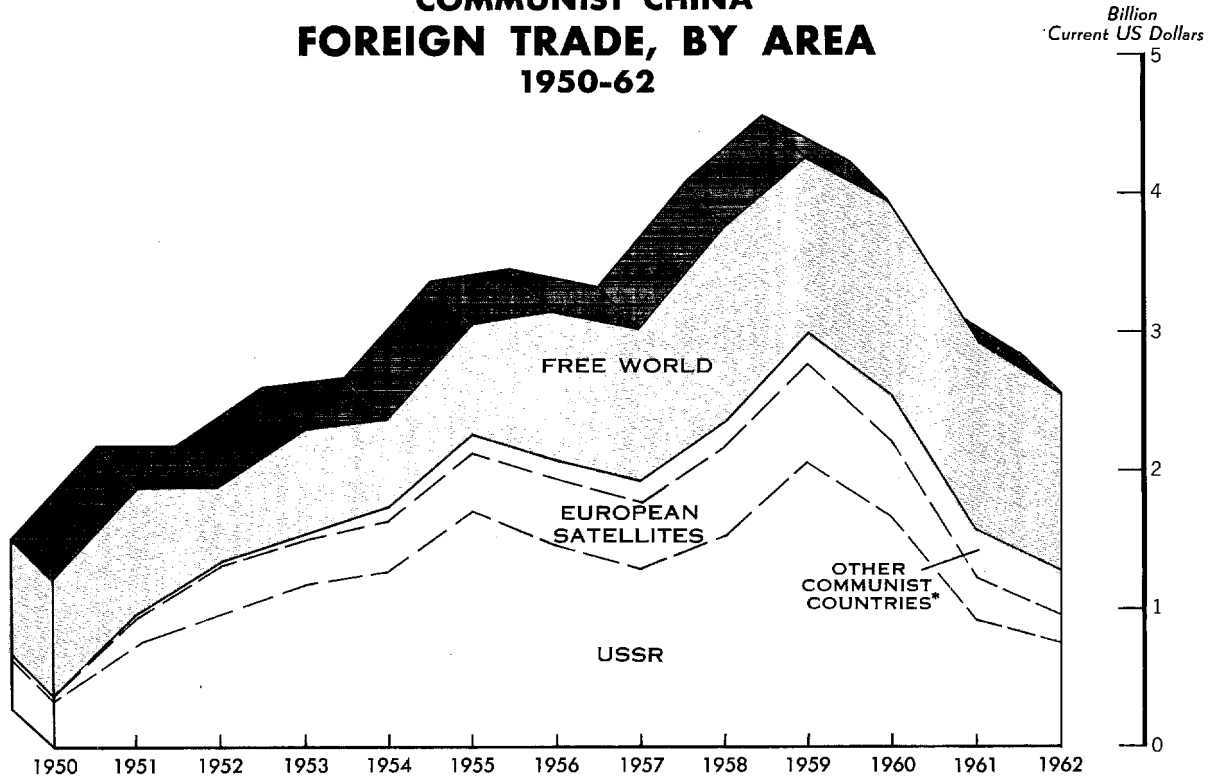
Soviet machinery, transportation equipment, and complete industrial installations have virtually disappeared from China's imports. These items had been the backbone of China's

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# **COMMUNIST CHINA FOREIGN TRADE, BY AREA 1950-62**



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\*Asian Communist countries, Yugoslavia, and Cuba

industrialization program, and most of them had come from the USSR. They had accounted for \$500 to \$600 million worth of Chinese imports from the USSR in 1959 and again in 1960, but only \$27 million by 1962. Purchases of complete plants--China's most important import supporting its industrial progress--fell from \$375 million in 1960 to only \$9 million last year.

Despite political antagonism, some trade probably will continue. China has continued to supply certain foodstuffs and

construction materials used in the Soviet Far East. On its part, the USSR is expected to go on delivering spare parts and maintenance equipment for Soviet-built installations in China.

## Trade With the Satellites

China's trade with Eastern Europe also has fallen drastically--by two thirds from its 1958 peak. Trade with China had provided the satellites an outlet for machinery difficult to market elsewhere and a source

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of much-needed imports of raw and semiprocessed materials. When China's leap forward collapsed, however, the Chinese canceled and postponed contracts for imports of complete plants and failed to meet export commitments for agricultural and mineral products.

Having experienced these costly disruptions, the countries of Eastern Europe are likely to be less interested in future trade with China than in their growing markets for machinery items in underdeveloped countries in the free world. The growing estrangement provoked by ideological differences provides additional barriers to a recovery of China's trade with Eastern Europe.

Trade With Free World

China's trade with nonbloc countries fell only 10 percent between 1960 and 1962. However, the composition of this trade has been radically changed. Purchases of items basic to industrial progress have virtually disappeared, but the value of imports has been sustained by large purchases of grain.

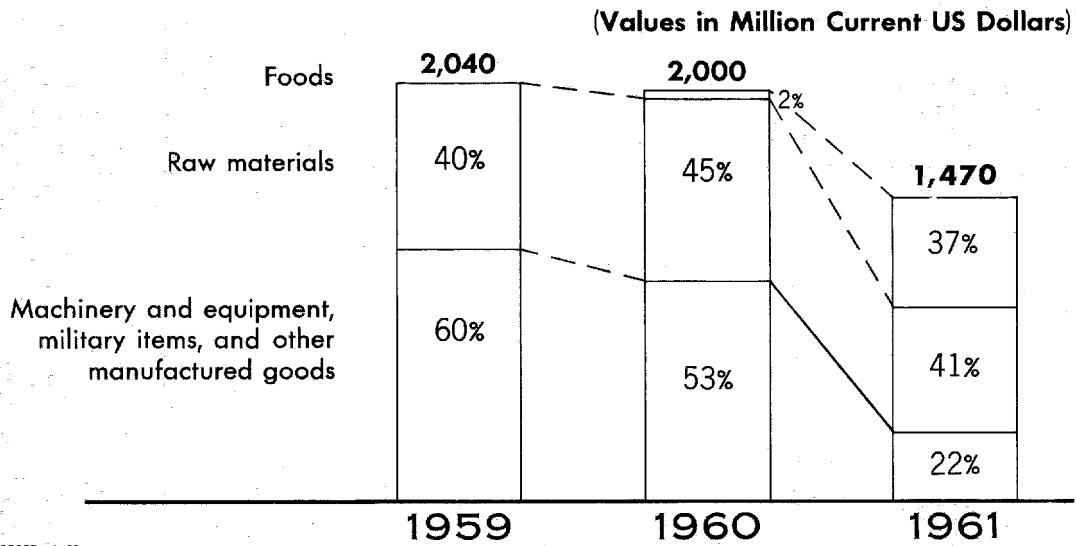
These imports ran upwards of \$300 million a year in 1961 and 1962 and will total nearly \$400 million this year. Additional

quantities are under contract from Australia, and a recent agreement with Canada provides for purchases through mid-1966. Such imports play no direct role in Communist China's economic recovery and--if continued--would interfere with its purchases of industrial items from the West. China's trade with Western Europe declined from \$660 million in 1960 to \$320 million in 1962. As in the case of trade with the Soviet bloc, imports of machinery and manufactured goods have dropped most sharply. Imports of iron and steel and other metals used in China's industrial growth fell from over \$200 million in 1960 to less than \$40 million last year. China, however, has been able to maintain some of its export market there. Sales in Western Europe have fallen by less than 30 percent, while purchases there have fallen by about 60 percent.

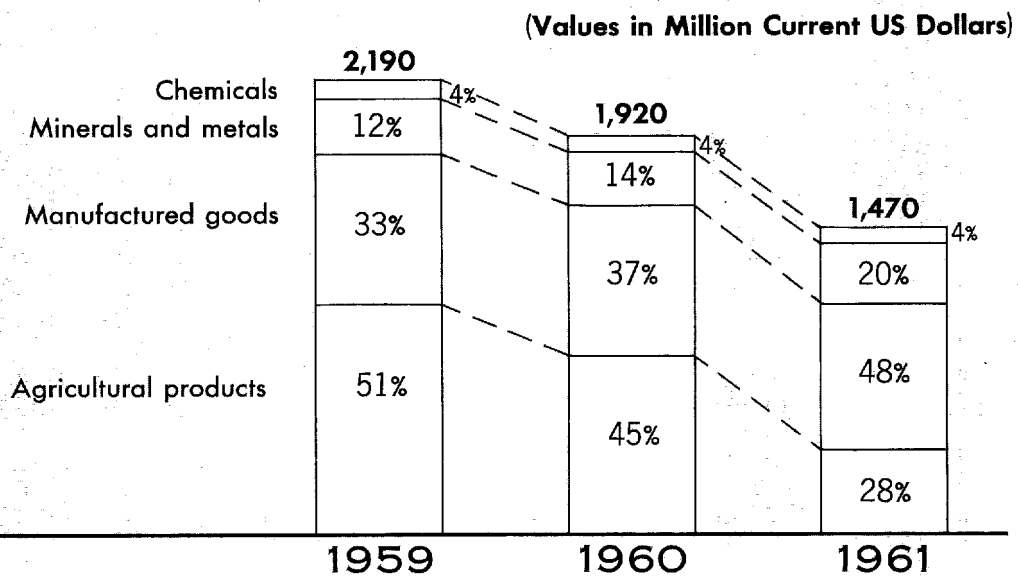
During the past eighteen months, Peiping has surveyed trade possibilities in Western Europe. Numerous Chinese engineers and technicians have visited plants producing metallurgical equipment, chemicals and petrochemicals, engineering products, and aircraft--a wide range of heavy industrial facilities. Their technical analysis was capped by the visit of a group of trade officials, led by a high-ranking trade officer. Virtually no contracts were signed, but

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# COMMUNIST CHINA COMMODITY COMPOSITION OF IMPORTS 1959-61



# COMMUNIST CHINA COMMODITY COMPOSITION OF EXPORTS 1959-61



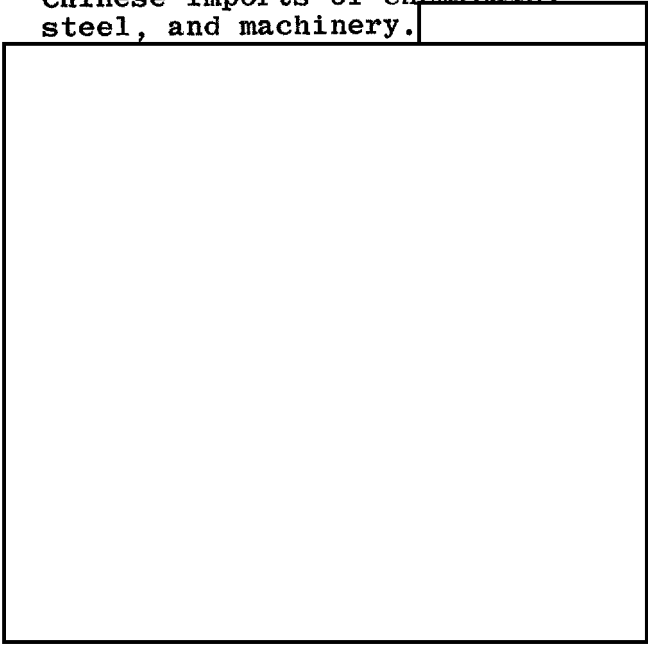
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the information garnered by this mission will presumably be a factor in the needed decision on the future course of the Chinese economy.

Sino-Japanese trade had remained at abnormally low levels from mid-1958 to 1961, reflecting Chinese insistence on political concessions as a prelude to any increase in trade. At the present time, however, Japan is the only industrial nation whose Chinese trade is growing.

25X6 The nonofficial Sino-Japanese trade pact concluded in 1962 calls for trade at about \$100 million a year. This goal was almost achieved last year and probably will be fulfilled in 1963. Plans for 1964 bear some of the earmarks of China's leap-forward trade with industrial countries--calling for Chinese imports of chemicals, steel, and machinery.

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Lowered requirements for raw materials have enabled Peiping to achieve a slight export surplus in Southeast Asia, Africa, and the Middle East, where trade is inspired largely by Peiping's effort to acquire and maintain some political influence.

Hong Kong continues to be a major source of foreign exchange. China's purchases there are negligible, while its exports, which may exceed \$250 million this year, provide cash to meet trade deficits elsewhere.

Chinese trade with Latin America is virtually nonexistent.. In 1962 Peiping bought about \$30 million worth of grain from Argentina, but no significant purchases have been made there this year. The exchange of goods with Cuba has mounted, reflecting Chinese interest in supporting the revolutionary zeal of the Castro regime. In 1962 China delivered goods worth over \$100 million and imported about \$95 million worth of Cuban goods, chiefly sugar. Although that performance may not be matched this year, Peiping's competition with the USSR will probably encourage sizable trade with Cuba.

Prospects

China will remain attentive to its trade with underdeveloped countries, to expand its markets and to foster

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political influence in those areas where it competes not only with the West but now also the USSR.

In the first half of 1963, trade with the industrial West remained in the doldrums, reflecting continued low-level domestic activity. China's bridge-burning with the USSR is likely to cause it to seek expanded imports of machinery and equipment from Western Europe and Japan on medium-term credits.

Any program to reinvigorate the economy should be evident in external trade, as orders for basic industrial equipment usually precede deliveries by a year or more. The type of equipment involved in any upsurge in purchases from the West should indicate whether China's decision is to support primarily industrial development or agricultural development or some combination of the two.

China faces numerous considerations prior to any renewal of imports on a scale sufficient to resume rapid industrial growth. Among the problems is the need to revive agriculture sufficiently to reduce grain imports. China must also increase exports, and to do so must develop new markets--as well as seek credits--in the West.

Another important problem with serious implications for expanded industrial trade with nonbloc countries is China's shortage of technically skilled personnel and its reluctance to receive foreign technicians. China has permitted some British technicians to accompany the Viscount aircraft recently purchased and occasionally in the past a few specialists have installed complicated Western equipment. However, turning to the free world for imports of equipment for complete plants would mean a sizable inflow of Western personnel.

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